

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Kent County Conservation District	County Kent
Fiscal Year End 9/30/06	Opinion Date 2/6/07 except for Note I 3/22/07	Date Audit Report Submitted to State 4/3/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Hendon & Slate PC		Telephone Number (231) 924-6890	
Street Address 711 West Main Street		City Fremont	State MI
Zip 49412			
Authorizing CPA Signature 		Printed Name Jodi DeKuiper, CPA	License Number 1101021180

**KENT COUNTY CONSERVATION DISTRICT
KENT COUNTY, MICHIGAN**

FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

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KENT COUNTY CONSERVATION DISTRICT

List of Principal Individuals

<u>Board Members</u>	<u>Position</u>
Paul Rogers	Chairman
Greg Goss	Vice-Chairman
Brandie Jacobs	Secretary/Treasurer
Don Otten	Member
Allan Howland	Member



Hendon & Slate, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS



February 6, 2007, except for Note I, as to which the date is March 22, 2007

Kent County Conservation District
3260 Eagle Park Dr., NE, Suite 111
Grand Rapids, MI 49525

Dear Board Members:

We have audited the accompanying financial statements of the governmental activities of the Kent County Conservation District, as of and for the year ended September 30, 2006, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Kent County Conservation District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the managements, as well as evaluating the overall general purpose financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Kent County Conservation District, as of September 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As discussed in Note I, the Governor has issued an executive order which has eliminated the general operating funding for the District. These conditions raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustment that might result from the outcome of this uncertainty.

The budgetary comparison information on page 16 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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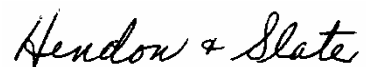
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February 6, 2007, except for Note I, as to which the date is March 22, 2007

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Kent County Conservation District has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Respectfully Submitted

A handwritten signature in cursive script that reads "Hendon & Slate".

Hendon & Slate, PC

Certified Public Accountants

KENT COUNTY CONSERVATION DISTRICT

Government Wide Statement of Net Assets September 30, 2006

	Governmental <u>Activities</u>
ASSETS	
Current Assets	
Cash	\$ 32,136
Due from Other Units	<u>4,465</u>
Total Current Assets	36,601
 Fixed Assets	
Vehicles and Equipment	-
Less Accumulated Depreciation	<u>-</u>
Total Fixed Assets	<u>-</u>
 Total Assets	<u><u>\$ 36,601</u></u>
 LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 4,460
Customer Deposits	960
Deferred Revenue	<u>15,168</u>
Total Current Liabilities	20,588
 Long-Term Liabilities	
Line of Credit	50,050
Compensated Absences	<u>2,287</u>
Total Long-Term Liabilities	<u>52,337</u>
 Total Liabilities	72,925
 NET ASSETS	
Unrestricted	<u>(36,324)</u>
 Total Liabilities and Net Assets	<u><u>\$ 36,601</u></u>

The notes to the financial statements are an integral part of this statement.

KENT COUNTY CONSERVATION DISTRICT

Government Wide Statement of Activities September 30, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenue and Changes In Net Assets</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Primary Government					
Operating Grants	\$ 105,490	\$ -	\$ 98,032	\$ (7,458)	\$ -
Business-Type Activities					
Reforestation	12,679	22,083	-	-	9,404
Total Primary Government	\$ 118,169	\$ 22,083	\$ 98,032	\$ (7,458)	\$ 9,404
General Revenues					
Interest & Rent				\$ -	\$ -
Other Charges and Sales				510	-
Transfers				9,404	(9,404)
Total General Revenues				9,914	(9,404)
Change in Net Assets				2,456	-
Net Assets - October 1, 2005				(38,780)	-
Net Assets - September 30, 2006				\$ (36,324)	\$ -

The notes to the financial statements are an integral part of this statement.

KENT COUNTY CONSERVATION DISTRICT

Governmental Fund Balance Sheet September 30, 2006

ASSETS

Cash	\$	32,136
Due from Other Governments		<u>4,465</u>
Total Assets	\$	<u><u>36,601</u></u>

LIABILITIES

Accounts Payable	\$	4,460
Customer Deposits		960
Deferred Revenue		<u>15,168</u>
Total Liabilities		20,588

FUND BALANCE

Unreserved		<u>16,013</u>
Total Liabilities and Fund Balance	\$	<u><u>36,601</u></u>

The notes to the financial statements are an integral part of this statement.

KENT COUNTY CONSERVATION DISTRICT

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets September 30, 2006

Total government Fund Balances	\$ 16,013
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Total net assets reported for governmental activities in the statement of net assets are different from the amount reported as total governmental funds fund balance because:

Long-term liabilities, including bonds payables, are not due and payable in the current period and therefore are not reported in the fund statements.	<u>(52,337)</u>
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Total Net Assets - Governmental Activities	<u><u>\$ (36,324)</u></u>
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KENT COUNTY CONSERVATION DISTRICT

Statement of Revenue, Expenditures, and Changes in Fund Balance September 30, 2006

	<u>September 30, 2006</u>
REVENUES	
State Grants	\$ 93,032
Local Grants	5,000
Sales and Other	-
Reforestation Project	22,083
Interest and Rent	-
Miscellaneous	510
Total Revenue	<u>120,625</u>
 EXPENDITURES	
Administrative	28,086
Engineering Grant	72,832
Reforestation Expenses	12,679
Miscellaneous	2,285
Total Expenditures	<u>115,882</u>
 Excess Revenues Over (Under) Expenditures	4,743
 Fund Balance October 1, 2005	<u>11,270</u>
 Fund Balance September 30, 2006	<u><u>\$ 16,013</u></u>

The notes to the financial statements are an integral part of this statement.

KENT COUNTY CONSERVATION DISTRICT

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities September 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$	4,743
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Amounts reported for governmental activities in the statement
of activities are different because:

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

(2,287)

Change in Net Assets - Governmental Activities	\$	2,456
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2,456

The notes to the financial statements are an integral part of this statement.

KENT COUNTY CONSERVATION DISTRICT

Notes to the Financial Statements
September 30, 2006

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Kent County Conservation District (the District) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant policies used by the Kent County Conservation District.

In June, 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- a. A Management's Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations (which the district has elected to omit).
- b. Financial statements prepared using full accrual accounting for all of the District's activities.

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements).

A. Reporting Entity

The Kent County Conservation District is governed by an elected five member board.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legally separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government. The General Fund, which is the District's only fund, is grouped in the financial statements in this report into two generic fund-types as follows:

Governmental Fund Types:

General Fund-The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. Revenues are primarily derived from grant sources.

Business Fund Types:

Within General Fund, the District runs the Reforestation Project which accounts for the purchase and resale of trees as a method of raising funds for operations.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead of general revenues.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is when they become both measurable and available to finance expenditures of the fiscal period. The District received grant revenues which are for the current year, although typically received in the current year, the last payment was received shortly after the end of the year. This amount is reported as receivable, as it is soon enough after the year to be used for amounts recorded as payable at the end of the year. The District also receives deposits from customers for the Fall Tree Sale, however, the trees are not purchased and delivered until after the end of the year, therefore, the District has Customer Deposits at the end of the year. All other revenue items are considered to be available only when cash is received by the government.

D. Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Due to the District having only one fund, there are no due to/from other funds reported.

All trade and grant receivables are shown as net of allowance for uncollectible amounts. Based on past experience, uncollectible receivables are \$-0-.

Inventories - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets - Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. The policy establishes thresholds for capital assets, depreciation methods to be used and the useful lives of various classes of assets. Listed below are the classes of assets and the associated capitalization threshold:

<u>Classes of Assets</u>	<u>Threshold</u>	<u>Useful Life</u>
Land and Improvements	\$ 25,000	N/A
Buildings and Improvements	25,000	25-40 Years
Machinery and Equipment	5,000	5-10 Years
Office Equipment and Furniture	5,000	5-10 Years
Computer Hardware	5,000	5 Years
Vehicles	5,000	8 Years
Construction in Progress	25,000	N/A

In determining the useful life of an asset the following items will be taken into consideration: quality, application or use, and environmental conditions.

Fixed assets are stated at cost, estimated historical costs or, if donated, fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the fixed assets.

All fixed assets with a useful life of more than one year and an original cost less than the capitalization threshold, but more than \$2,500 will be recorded and inventoried, but will not be capitalized or depreciated.

Use of Estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amount reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Compensated Absences (Vacation and Sick Leave) - It is the District's policy to permit full time employees to accumulate earned but unused sick and vacation pay benefits. All vacation & sick pay is accrued when incurred in the government-wide financial statements.

Long-Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Proceeds from debt issuances are reported as other financing sources.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE B STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are being adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end. The District follows these procedures in establishing the budgetary data reflected in the financial statements.

The District begins its budgeting process in July of each year. At the July board meeting the administrator/executive director should provide a report to the board containing information required by the MDA Accounting Manual. The budget includes proposed expenditures and the means of financing them.

Public hearings are conducted to obtain public comments.

Prior to September 30, the budget is legally adopted.

The budget shown in these financial statements are as last amended through September 30, 2006.

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the required supplemental data section of the financial statements, the District's actual expenditures and budgeted expenditures have been shown on a functional basis. The approved budget of the District was adopted on a line item level. The District does not utilize encumbrance accounting.

Excess of Expenditures Over Appropriations in Budgeted Funds - based on the functional level as reported, the District incurred expenditures that exceeded activity level budgeted amounts as

	Budget	Actual	<u>Excess Over</u>
	<u>Amount</u>	<u>Expenditures</u>	<u>Budget</u>
Other	\$ -	\$ 2,285	\$ 2,285

In total the District's expenditures were under budget by \$17,800.

NOTE C DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the District to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The District is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the District's Board of Directors in accordance with Public Act 196 of 1997 has authorized investments in bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States; certificates of deposit of a bank which is a member of the Federal Deposit Insurance Corporation; or in a community foundation under PA 136 of 1921 as amended, but not the remainder of the State statutory authority as listed above.

The District's deposits are in accordance with statutory authority. All deposits are held at Valley Ridge Bank (now known as Choice One Bank) and carried at cost. The District holds the accounts in its own name. The funds of the District are insured under FDIC regulations as set forth in section 330.8(2). As of September 30, 2006, \$-0- was uninsured.

At September 30, 2006, the cash & deposits of the District consisted of the following:

<u>Type</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Checking	\$ 27,286	\$ 28,887
HCNC Checking	<u>4,850</u>	<u>4,850</u>
Total Cash & Deposits	<u>\$ 32,136</u>	<u>\$ 33,737</u>

NOTE D RECEIVABLES/DEFERRED REVENUE

At September 30, 2006 accounts receivable consisted of the following:

	<u>Accounts Receivable</u>	<u>Due from Other Governments</u>	<u>Total</u>
Due from Others	\$ -	\$ 625	\$ 625
Due from State	-	3,840	3,840
Total	<u>\$ -</u>	<u>\$ 4,465</u>	<u>\$ 4,465</u>

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Customer Deposits	\$ -	\$ 960
Deferred Grants	-	15,168

NOTE E CAPITAL ASSETS

Currently the District does not own any assets which are required to be recorded based upon the capitalization policy adopted.

NOTE F RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets and omissions; and natural disasters for which the District carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

NOTE G LEASES

In 2006, the District entered into an agreement with Kent Intermediate School District. The District will pay the School \$1 per year (due on or before the 1st day of September, 2006) for approximately 130 acres of land in Northern Kent County commonly known as The Howard Christiansen Nature Center.

NOTE H CHANGES IN LONG-TERM DEBT

The following is a summary of the changes in long-term (including current portion) of the District for the year ended September 30, 2006:

	Balance 10/1/2005	Net Borrowings (Payments)	Balance 9/30/2006	Amounts Due Within One Year
Long-Term Debt: Line of Credit	\$ 50,050	\$ -	\$ 50,050	\$ -
Vacation and Sick Pay - Due as used or upon retirement or termination	-	2,287	2,287	-
Total Long-Term Debt	<u>\$ 50,050</u>	<u>\$ 2,287</u>	<u>\$ 52,337</u>	<u>\$ -</u>

The compensated absences represent the estimated liability to be paid employees under the District's sick pay bonus and vacation pay policy. Under the District's policy, employees earn vacation time and sick pay bonuses based on hours worked.

The line of credit that was initially approved in the name of the Kent County Conservation District with an APR of 7.5%. The most recent balance known on this liability was \$50,050 on September 23, 2001.

The line of credit was signed for by the director at that time, who is no longer employed by the District. The District is in litigation regarding the legality and collectibility of this debt. The loan was not approved by the board, the Michigan Department of Treasury, or the Michigan Department of Agriculture. Therefore, the loan is currently under review and expected to be removed as not being enforceable.

NOTE I GOING CONCERN

On March 22, 2007, the Governor of the State of Michigan issued an executive order (Executive Order No. 2007-3) which eliminates the District's funding for General Operations. Without this funding, the District would have difficulty providing the services necessary to continue operations.

KENT COUNTY CONSERVATION DISTRICT

Required Supplemental Information Budgetary Comparison Schedule for the General Fund September 30, 2006

	Budgeted Amounts			Variance
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>With Final Budget</u>
Beginning of Year Fund Balance	\$ -	\$ -	\$ 11,270	\$ 11,270
Resources (Inflows)				
State Grants	21,200	103,200	93,032	(10,168)
Local Grants	-	-	5,000	5,000
Sales and Other	120	120	-	(120)
Reforestation Project	30,000	30,000	22,083	(7,917)
Interest and Rent	1,800	1,800	-	(1,800)
Miscellaneous	-	-	510	510
Amounts Available for Appropriation	53,120	135,120	131,895	(3,225)
Charges to Appropriations (Outflows)				
Administrative	38,620	37,320	28,086	9,234
Engineering Grant	-	82,362	72,832	9,530
Tree Sale Expenses	14,000	14,000	12,679	1,321
Miscellaneous	-	-	2,285	(2,285)
Total Charges to Appropriations	52,620	133,682	115,882	17,800
Budgetary Fund Balance Sept. 30, 2006	\$ 500	\$ 1,438	\$ 16,013	\$ 14,575



Hendon & Slate, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS



March 2, 2007

Kent County Conservation District
3260 Eagle Park Dr., NE, Suite 111
Grand Rapids, Michigan 49525

Dear Board Members:

We have audited the financial statements of the Kent County Conservation District as of and for the year ended September 30, 2006 and issued our report thereon dated February 6, 2007. As part of our review, we considered the District's accounting and administrative controls; compliance with Department of Treasury guidelines and the Michigan Conservation District Uniform Accounting Procedures Manual; checked for adherence to grant contract requirements; reviewed general liability, workers compensation insurance, and bonding for employees and board members; and verified the District had adopted policies for fixed assets and investments. Because this study was only part of the overall audit plan, it is not intended to be a complete review of all your accounting procedures; and, therefore, would not necessarily disclose all weaknesses in your system. Accordingly, we offer the following comments and recommendations.

Books and Records

The books and records were lacking documentation. Although we were able to review documentation for the information which we requested. Most documentation was received directly from external sources by the Interim Director upon our request. One of the most significant expenditures by the District was for payroll and related expenses for which documentation was available when we began the engagement.

In addition, the accounting software was not being properly up-dated for items flowing through the Accounts Payable and Accounts Receivable modules. Some items were entered through these modules without a subsequently being relieved. Some items were relieved without being entered into the modules. We recommend that the District discontinue use of these modules, unless the Board is able to provide oversight of these accounts for appropriate balances on a timely basis.

Engineer Position

During the year, the District hired two engineers under the Engineering Technical Assistance Program. The work agreement for these engineers provides the

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requirements and expectations of both the engineers and the District as it relates to these positions. We noted that one benefit being provided by the District to the two engineers is not being handled properly. The District will reimburse benefits insurance at a rate of \$1,200 per quarter. The agreement requires that proof of benefit policy and payment must be submitted to the District prior to a check being issued.

This type of arrangement is a non-qualified plan which requires reporting of the income on the employees' Wage Report (Form W-2) as taxable income. As part of this plan, the District paid directly to an agent for health insurance for each of these employees. In addition, an amount was paid directly to one employee's Individual Retirement Account (IRA). The plan does not provide for the District purchasing the health insurance directly nor does it describe the types of benefits being reimbursed.

We highly recommend that this arrangement be properly clarified in a new contract or agreement and that the District consult their payroll accountant regarding these payments and the appropriate reporting of these benefits.

Budget and Other Items

The District did not include fund balance when preparing the budget for the current fiscal year. The budget did not budget for spending more than received in 2005-2006. The budget was amended during the year to reflect the Engineering Technical Grant received during the year, however, the Wege grant and related expenditures were not amended for in the budget. This resulted in the activity, HCNC Grant Expense, to be over budget. We recommend that when any changes occur during the year which will result in larger revenues and expenditures, that the Board approve a budget amendment as soon as possible.

We were unable to determine if the sales tax was being properly collected on tree sales or if any collection was paid to the State of Michigan. The District should keep appropriate documentation of the sales tax collected and remitted to the State of Michigan. The District could have interest and penalties for not properly collecting and/or remitting the taxes.

Financial Analysis

After reviewing the financial statements a few items came to our attention that we would like to pass on.

- Cash balance is \$32,136 which is up over \$23,000 from 9/30/2005.
- Due to the timing of the Engineering Technical Grant and the hiring of the engineers, there was a balance of \$15,168 which has not been spent as of September 30, 2006.

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- Fund balances have increased 42% over the prior year. This appears to be from a combination of the Wege grant received and tree sales exceeding costs.
- Revenues have increased over \$73,000 from 9/30/2005. This was largely due to receiving the Engineering Technical and Wege Grants.
- Total expenditures have increased almost \$75,000 over 9/30/2005. As with the revenues, this was related to receiving the Engineering Technical and Wege Grants.
- Attached are graphs with history on revenues and expenditures.

Thank you for the courtesy extended to us during our engagement. We look forward to a continued relationship with Kent County Conservation District. If you have any questions regarding the report, this letter or any other communication, please do not hesitate to call.

Respectfully submitted,

Jodi DeKuiper, CPA

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Hendon & Slate, PC